

# THE BRAEMORE GROUP



# Financial Highlights

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Year ended	December 27, 1975	December 28, 1974
Sales .....	\$ 36,597,000	\$ 35,811,000
Net earnings .....	\$ 27,000	\$ 902,000
Earnings per share .....	2¢	58¢
Working capital .....	\$ 4,412,000	\$ 6,398,000
Shareholders' equity .....	\$ 9,210,000	\$ 9,183,000
Shares outstanding .....	1,565,800	1,565,800



# To our Shareholders

The past year was a difficult one for the Canadian furniture industry in that it was faced with reduced retailer demand for all products and increased import competition in wood furniture products (case goods). The result was intensified competition among manufacturers for market share and the selling of merchandise at reduced margins during the first half of the year in order to maintain production and keep plants operating.

Sales strengthened in the second half and for the full year we were able to show a small increase in sales and a marginal profit as reported in the financial highlights table on the opposite page.

The reasons for our performance this past year can be clearly identified so that shareholders may better appreciate the company's present position and the steps management is taking to improve performance.

While furniture manufacturers experienced a difficult year in 1975, retailers, for the most part, enjoyed excellent sales, stimulated in no small measure by a dramatic turnaround in the new housing market early in the year.

However, because retailers went into 1975 with large carryovers of inventory, they virtually stopped buying new goods. This left manufacturers — including your company — with large inventory positions. The resultant high costs of carrying this inventory, together with continuing operational overheads and a low level of sales in the first half of the year had a severe impact on the company's profits in this period.

Our upholstered products, which provide outstanding merchandise for the leading department stores, specialty chains and independent retailers in the middle and upper price ranges, continued to be the mainstay of the company. The upholstered furniture division performed sufficiently well throughout the year, especially in the second half, to enable the company to overcome the loss that was reported for the first half.

In addition to the generally low level of demand in the first half, the company's wood furniture division dealt with the need to develop distinctive, acceptable product lines, and to complete integration and rationalization of production.

With the low level of sales two plants were shut down early in the year. Substantial costs were incurred designing and engineering new lines of wood furniture. These new products were well received in the market place. However, there is a long lead time required for wood furniture from the planning stage, through pro-

duction, to delivery and no significant impact on sales was felt until late in the year.

For the last quarter of 1975 sales of wood furniture were sharply higher than in the same period of the previous year, more than offsetting a decline in demand for television cabinets.

One of the plants was re-opened in 1975 and the other was re-opened early in 1976.

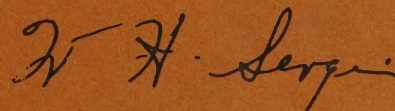
## Outlook

We enter the current fiscal year with cautious optimism. Our sales at the January furniture show in Toronto were above expectations and we started the year with the largest volume of orders we have ever had. Indeed, our present order position is more than satisfactory to enable the planning of efficient production levels. Production volume in the first three months of the current fiscal year was greatly advanced from the same period in the previous year.

Late in 1975 we increased our facilities to meet the high level of demand for upholstered furniture and we have increasing confidence in the viability of both our case goods and upholstered production lines as major factors in the furniture industry.

There is already some evidence that Canada's economy will be improved in 1976, with economists forecasting some growth in real terms in Gross National Product. However, the effects of the federal Government's anti-inflation program are still to be fully realized and its impact on the economy cannot be accurately assessed. Your company supports the Government in its fight to bring inflation under control and intends to do as much as possible to help make the AIB regulations work.

On behalf of the Board, I thank our management, staff and customers for their loyal support during an extremely trying period.



Chairman and Chief Executive Officer

Toronto,  
April 15, 1976



## Consolidated Statement of Earnings

	Year Ended December 27, 1975 (\$000)	Year Ended December 28, 1974 (\$000)
SALES .....	\$36,597	\$35,811
EXPENSES		
Cost of sales and expenses .....	35,219	32,980
Depreciation and amortization .....	342	299
Interest on long-term debt .....	342	309
Interest on current debt .....	630	681
	<u>36,533</u>	<u>34,269</u>
EARNINGS BEFORE INCOME TAXES .....	64	1,542
Income taxes (note 1e) .....	27	648
	<u>37</u>	<u>894</u>
Minority interest in subsidiaries' earnings .....	10	(8)
NET EARNINGS FOR THE YEAR .....	<u>\$ 27</u>	<u>\$ 902</u>
EARNINGS PER SHARE (note 6) .....	<u>\$0.02</u>	<u>\$0.58</u>

## Consolidated Statement of Retained Earnings

Balance, beginning of year .....	\$ 2,691	\$ 1,789
Net earnings for the year .....	<u>27</u>	<u>902</u>
Balance, end of year .....	<u>\$ 2,718</u>	<u>\$ 2,691</u>



## Consolidated Statement of Changes in Financial Position

	Year ended December 27, 1975 (\$000)	Year Ended December 28, 1974 (\$000)
<b>WORKING CAPITAL PROVIDED BY:</b>		
Net earnings before minority interest .....	\$37	\$894
Charges not requiring the current outlay of working capital		
— depreciation and amortization .....	342	299
— deferred income taxes .....	(248)	425
Funds from operations .....	131	1,618
Advances from parent — Strathearn House Group Limited .....	—	1,500
Issue of common shares for acquisitions .....	—	5,171
Issue of promissory notes for acquisitions .....	—	1,812
Working capital acquired on acquisitions .....	—	2,906
Finance company notes .....	166	48
	<u>297</u>	<u>13,055</u>
<b>WORKING CAPITAL USED FOR:</b>		
Repayment of advances from parent — Strathearn House Group Limited .....	1,500	—
Acquisitions .....	—	7,784
Purchase of fixed assets (net) .....	696	811
Decrease in long-term debt .....	72	30
Increase in deferred charges .....	15	—
	<u>2,283</u>	<u>8,625</u>
INCREASE (DECREASE) IN WORKING CAPITAL .....	(1,986)	4,430
WORKING CAPITAL, BEGINNING OF YEAR .....	6,398	1,968
WORKING CAPITAL, END OF YEAR .....	<u>\$4,412</u>	<u>\$6,398</u>
<b>COMPONENTS OF INCREASE (DECREASE) IN WORKING CAPITAL</b>		
Increases (decreases) in current assets		
Accounts receivable .....	\$3,794	\$4,070
Income taxes refundable .....	(317)	317
Inventories .....	(595)	8,196
Prepaid expenses .....	(1)	123
	<u>2,881</u>	<u>12,706</u>
Decreases (increases) in current liabilities		
Bank indebtedness .....	(3,115)	(1,438)
Bankers' acceptances .....	2,500	(3,500)
Accounts payable .....	(3,804)	(3,329)
Income taxes payable .....	(21)	95
Due to parent .....	(408)	(62)
Current portion of long-term debt .....	(19)	(42)
	<u>(4,867)</u>	<u>(8,276)</u>
INCREASE (DECREASE) IN WORKING CAPITAL .....	<u>(\$1,986)</u>	<u>\$4,430</u>

*The accompanying notes form an integral part of the financial statements.*



# Consolidated Balance Sheet

as at December 27, 1975

Assets	1975 (\$000)	1974 (\$000)
<b>CURRENT</b>		
Accounts receivable .....	\$10,001	\$ 6,207
Income taxes refundable .....	—	317
Inventories (note 1b) .....	9,610	10,205
Prepaid expenses .....	152	153
	<u>19,763</u>	<u>16,882</u>
<b>FIXED</b>		
Land .....	224	224
Buildings .....	1,578	1,578
Equipment and leasehold improvements .....	6,098	5,420
Total, at cost .....	7,900	7,222
Accumulated depreciation (note 1c) .....	4,373	4,049
	<u>3,527</u>	<u>3,173</u>
<b>OTHER</b>		
Deferred charges, at cost less amortization .....	33	18
Deferred income taxes (note 1e) .....	291	43
Goodwill (note 1d) .....	3,341	3,342
	<u>3,665</u>	<u>3,403</u>
	<u>\$26,955</u>	<u>\$23,458</u>

## Auditors' Report

To the shareholders,  
House of Braemore Furniture Limited.

We have examined the consolidated balance sheet of House of Braemore Furniture Limited and its subsidiaries as at December 27, 1975, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 27, 1975, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Liabilities	1975 (\$000)	1974 (\$000)
<b>CURRENT</b>		
Bank indebtedness (note 3) .....	\$ 5,988	\$ 2,873
Bankers' acceptances (note 3) .....	1,000	3,500
Accounts payable and accrued charges .....	7,811	4,007
Income taxes payable .....	21	—
Due to parent — Strathearn House Group Limited .....	470	62
Current portion of long-term debt (note 4) .....	61	42
	<u>15,351</u>	<u>10,484</u>
LONG-TERM DEBT (note 4) .....	<u>2,081</u>	<u>3,488</u>
MINORITY INTEREST .....	<u>313</u>	<u>303</u>
 <b>Shareholders' Equity</b>		
<b>SHARE CAPITAL (note 5)</b>		
Authorized		
3,000,000 Common shares without par value		
Issued		
1,565,800 Common shares .....	6,492	6,492
RETAINED EARNINGS .....	<u>2,718</u>	<u>2,691</u>
	<u>9,210</u>	<u>9,183</u>
	<u>\$26,955</u>	<u>\$23,458</u>

*On behalf of the board*

W. H. Singer, Director

W. Posluns, Director

*The accompanying notes form an integral part of the financial statements.*



## Notes to Consolidated Financial Statements

AS AT DECEMBER 27, 1975

## 1. Accounting Policies

## a. Basis of consolidation

The consolidated financial statements include the accounts of the following subsidiaries:

## Wholly-owned

The Hespeler Furniture Company Limited  
(including its division, American Frame)  
Singer Lighting Co. Ltd.  
Troister & Company Limited  
Emanuel Products Limited  
Roti-Wood Products (Fergus) Limited  
COSF Products Limited  
(including its division, Standard Upholstery Company)  
Willison Wood Products Company Limited

## Partially-owned

Thompson-Heyland Limited (60% owned)  
Braemore Convertibles Limited (51% owned) (note 2)

All significant inter-company loans and transactions have been eliminated on consolidation.

## b. Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) and net realizable value, and consist of:

	1975 (\$,000)	1974 (\$,000)
Raw materials .....	\$ 6,038	\$ 5,594
Work-in-progress .....	1,079	1,753
Finished goods .....	2,493	2,858
	<u>\$ 9,610</u>	<u>\$10,205</u>

## c. Depreciation

Depreciation is provided on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings .....	2½%
Equipment and leasehold improvements .....	10%-33⅓%
Automotive .....	25%

## d. Goodwill

Goodwill represents the excess of the cost of subsidiaries over their net tangible assets at the date of acquisition. Goodwill acquired subsequent to April 1, 1974 will be amortized to earnings by the straight-line method over the estimated life of such goodwill for a period not exceeding 40 years (1975 amortization — \$1,000; 1974 — \$1,000). It is not the present intention of the company to amortize the goodwill acquired prior to April 1, 1974.

## e. Deferred income taxes

	1975 (\$,000)	1974 (\$,000)
(i) Income taxes provided in respect of timing differences between accounting and taxable income .....	\$211	\$176
(ii) Income tax reductions which are expected to be realized in future years by carrying forward losses of subsidiaries. In the view of management, these reductions are virtually certain to be realized .....	( 502)	( 219)
	<u>(\$291)</u>	<u>(\$ 43)</u>



## 2. New Subsidiary

House of Braemore Furniture Limited has a 51% interest in Braemore Convertibles Limited which was incorporated on February 28, 1975.

## 3. Bank Indebtedness

The bank indebtedness and bankers' acceptances are secured by a pledge of book debts and inventories.

## 4. Long-Term Debt

	1975 (\$,000)	1974 (\$,000)
10.7% Industrial Development Bank loan, due April 22, 1979, secured by mortgages .....	\$ 120	\$ 156
10% Mortgage payable, due October 15, 1977 .....	13	14
Promissory notes		
Prime plus 1%, due April 1, 1979 (note 5)		
— Directors and officers .....	1,225	1,225
— Other .....	275	275
Non-interest bearing, due December 31, 1976 .....	83	83
8½% due August 28, 1981 .....	229	229
Finance company notes, secured by chattel mortgages.....	197	48
Prime plus ¾% to parent — Strathearn House Group Limited .....	—	1,500
	<u>2,142</u>	<u>3,530</u>
Due within one year .....	61	42
	<u>\$2,081</u>	<u>\$3,488</u>

## 5. Share Capital

The promissory notes due April 1, 1979, aggregating \$1,500,000 (note 4), have subscription warrants attached entitling the holders to subscribe for a total of 75,000 common shares from treasury at \$5.00 per share. These warrants may be exercised at any time prior to the maturity date of the notes and expire on that date.

## 6. Earnings Per Share

The effect on earnings per common share of giving effect to the exercise of the warrants attached to the promissory notes (note 5) and of imputing interest at a rate equivalent to that payable on the notes, would be anti-dilutive.

## 7. Lease Commitments

Aggregate minimum rentals of properties are as follows:

	(\$,000)
Year ended December 25, 1976 .....	\$ 611
The next four years .....	1,630
1981 to 1997 .....	1,686
	<u>\$3,927</u>



## Notes to Consolidated Financial Statements

AS AT DECEMBER 27, 1975

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### 8. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers of the company during the current year amounted to \$634,000.

### 9. Pension Benefits

The corporation is obligated under an agreement with a retired director and senior officer for the payment of \$35,000 per annum to 1983. This amount will be charged to annual earnings over the term of the agreement.

### 10. Anti-Inflation Legislation

The companies are subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective on October 14, 1975.

### 11. Comparative Figures

Certain of the 1974 comparative figures have been reclassified to conform with the presentation in the current year.



## Directors

M. FAITH  
Vice-President, Emanuel Products Division

E. FINE  
Vice-President, Braemore Furniture Division

S. GOSSIN  
Vice-President, Emanuel Products Division

M. HANDELMAN  
Vice-Chairman of House of Braemore  
Furniture Limited

J. F. KAY  
President of Dylex Limited

I. A. POSLUNS  
Executive Vice-President of Dylex Limited

J. I. POSLUNS  
Executive Vice-President of Dylex Limited

\*W. POSLUNS  
Secretary and Treasurer of Dylex Limited

\*S. M. SIGEL  
Partner, Messrs. Stütt, Baker & McKenzie,  
Solicitors

W. H. SINGER  
Chairman and Chief Executive Officer of  
House of Braemore Furniture Limited  
President and Chief Executive Officer of  
Strathearn House Group Limited

P. TANE  
Vice-President, Standard Upholstery Division

H. VOGEL  
Vice-President, Braemore Furniture Division

H. K. WEINER  
President of House of Braemore Furniture  
Limited

\*A. H. ZALDIN, Q.C.  
Senior Partner, Messrs. Zaldin and Fine, Solicitors

\* *Member of the audit committee*

## Officers

W. H. SINGER  
Chairman of the Board and Chief Executive Officer

M. HANDELMAN  
Vice-Chairman of the Board

H. K. WEINER  
President

W. POSLUNS  
Secretary and Treasurer

M. FAITH  
Vice-President

E. FINE  
Vice-President

S. GOSSIN  
Vice-President

J. F. KAY  
Vice-President

I. A. POSLUNS  
Vice-President

J. I. POSLUNS  
Vice-President

P. TANE  
Vice-President

H. VOGEL  
Vice-President

Transfer Agent and Registrar  
CROWN TRUST COMPANY

### Auditors

Wm. EISENBERG & CO., Chartered Accountants

### Bankers

BANK OF MONTREAL

### Listed On

TORONTO STOCK EXCHANGE

### Executive Offices

637 Lakeshore Boulevard West, Toronto, Canada  
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